

Multifamily Mortgage Risk-Sharing Programs (Sections 542(b) and 542(c))

Two multifamily mortgage credit programs under which Fannie Mae, Freddie Mac, and state and local housing finance agencies share the risk and the mortgage insurance premium on multifamily housing.

Nature of Program: Section 542(b) of the Housing and Community Development Act of 1992 authorizes HUD to enter into reinsurance agreements with Fannie Mae, Freddie Mac, qualified financial institutions (QFIs), and the Federal Housing Finance Board. The agreements provide for risk-sharing on a 50-50 basis. Currently, only Fannie Mae and Freddie Mac have active risk-sharing programs which encourage the development and preservation of affordable housing. This program was developed as a demonstration program to test innovative mortgage insurance and reinsurance products to provide affordable multifamily housing through a partnership between the Qualified Participating Entities (QPEs) and HUD. A QPE and/or its approved lenders may originate and underwrite affordable housing loans. If there is a default, the QPE will pay all costs associated with loan disposition and will seek reimbursement from HUD. The HUD risk share will be 50 percent pro rata. HUD's mortgage credit enhancements are used to support the underwriting and production strengths of Fannie Mae, Freddie Mac, and other qualified Federal, State, and local public financial and housing institutions.

Section 542(c) enables HUD to carry out a program in conjunction with qualified state and local housing finance agencies (HFAs) to provide federal credit enhancement for loans for affordable multifamily housing through a system of risk-sharing agreements. Agreements provide for risk-sharing between 10 percent and 90 percent.

The Fiscal Year 2001 Appropriations Act changed the program from a pilot program into a permanent insurance authority.

Applicant Eligibility: Qualified Participating Entities and Housing Finance Agencies.

Legal Authority: Section 542 of the Housing and Community Development Act of 1992 (12 U.S.C. 1707 note). Regulations are at 24 CFR part 266 for the Section 542(c) program. Section 542(b) is implemented through a housing notice and negotiated agreements without regulations.

Administering Office: Assistant Secretary for Housing-Federal Housing Commissioner, U.S. Department of Housing and Urban Development, Washington, DC 20410.

Information Sources: Administering office, and for Section 542(c), state housing finance agencies.

On the Web: www.hud.gov/offices/hsg/mfh/progdesc/riskshare542b.cfm or
www.hud.gov/offices/hsg/mfh/progdesc/riskshare542c.cfm

Current Status: Active.